

## July Market Overview

Global stocks moved higher in July, boosted by a robust set of 2nd quarter corporate earnings announcements with all major central banks holding interest rates steady.



### MIX GLOBAL GROWTH

Softer Chinese manufacturing data is pressuring European (DAX -2%) and Asian markets.

Global economic growth continues to be mixed, with softer Chinese manufacturing data weighing on some European (DAX -2%) and Asian markets. Conversely, buoyant US consumer data and upbeat US Tech earnings helped to propel the US market forward (S&P500 +2.2%). Investors remain broadly bullish moving into August with global ETF's and tracker funds seeing good levels of inflow which, whilst positive, we don't believe has reached "euphoria" yet. Likewise, investor positioning is undoubtedly positive towards equities but we don't see this as overstretched which is an important distinction. This indicates a level of cautious optimism which we think is healthy given the uncertain economic backdrop.

### US STRENGTH FUELS CAUTIOUS OPTIMISM

Strong US data and tech earnings lifted the S&P500 2.2%, with bullish but measured investor sentiment.



Finally, bond yields fluctuated in the face of central bankers weighing the benefits of cutting interest rates further but also cautious on not exacerbating an already volatile global inflation picture.

## Portfolio Positioning

Trading within the Active model range remained muted into August with much of the strategy already geared up to take advantage of a dominant US market surging forward. The active portfolios also benefited from increased investment into high quality active funds invested into the wider global stock market.



### ACTIVE MODEL TRADING

Active model trading was quiet into August, positioned for a strong US market and boosted by high-quality global equity funds.

Of late these investments have seen greater performance as the market becomes more of a "stock pickers" environment to which these investments thrive and, in turn, help to deliver greater uncorrelated, active performance. Active Bond funds in the portfolios performed well with managers extracting alpha from improving corporate credit fundamentals Vs government bonds which continue to benefit actively managed bond funds.

## Outlook

Looking ahead, we anticipate continued US market leadership as economic data holds up, inflation remains contained and central banks look towards rate cuts in the second half of the year. Summer volatility is likely as trade talks conclude and economic data points are closely analysed. The summer holiday season always induces low trading volume, amplifying market moves in both directions.



### US LEADERSHIP AMID SUMMER VOLATILITY

Strong data and contained inflation support US leadership, but low summer volumes may heighten market swings.

The dollar appears oversold, setting the stage for a possible rebound in the coming months. In bonds, we favour sitting the quarter out in actively managed bond funds which can rotate between corporate bonds to boost performance and sovereign bonds to increase defence should economic data turn sour. On a macro level we favour shorter dated, and inflation protected

bonds in the near turn as the resultant inflation spike from US tariffs has yet to be fully felt in the US.

Likewise, we maintain a focus on the equity market's reaction to surprise (negative) economic data which we envisage being a volatile event. Emerging markets we see continuing to benefit from longer term structural dollar weakness alongside a continued move from investors to re balance their portfolios to a more globally weighted asset allocation.

Europe presents a stable but slower growth profile, with potential for modest outperformance if earnings surprise and global diversification accelerates. These two markets represent active opportunities to outperform both in the short and longer term for TAM.

The UK remains cheap but good quality. Politically the situation is cloudy but recent rate cuts bode well for UK consumer positivity. Income remains attractive in the UK as buybacks and a lack of investor appetite provide more potential upside than downside. Given seasonal volatility, we maintain a cautious about bouts of sharp volatility but broadly constructive on stocks, particularly in US large caps which certainly have the momentum back behind them for now.

We remain long gold, risk parity, and short-duration fixed income to counterbalance the positive view on stocks. The path forward in the third quarter will be shaped by economic data points and specifically US data, diplomacy developments in the middle east and the Fed's balancing act between inflation and economic growth.

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